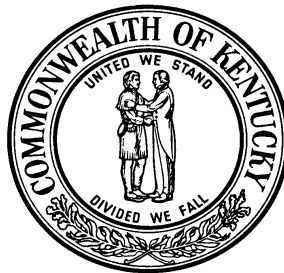


**REPORT OF THE AUDIT OF THE
ADAIR COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
January 1, 2007 Through April 27, 2007**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ADAIR COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
January 1, 2007 Through April 27, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the Adair County Sheriff for the period January 1, 2007 through April 27, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$660,615 for the districts for 2006 taxes, retaining commissions of \$27,110 to operate the Sheriff's office. The Sheriff distributed taxes of \$632,847 to the districts for 2006 Taxes.

Report Comment:

The Sheriff's Office Lacks An Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were adequately secured on April 27, 2007. However, as of April 4, 2007, deposits were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$21,545

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Ann Melton, Adair County Judge/Executive
Honorable Ralph Curry, Adair County Sheriff
Members of the Adair County Fiscal Court

Independent Auditor's Report

We have audited the Adair County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through April 27, 2007. This tax settlement is the responsibility of the Adair County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Adair County Sheriff's taxes charged, credited, and paid for the period January 1, 2007 through April 27, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 19, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Ann Melton, Adair County Judge/Executive
Honorable Ralph Curry, Adair County Sheriff
Members of the Adair County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks An Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 19, 2008

ADAIR COUNTY
 RALPH CURRY, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period January 1, 2007 Through April 27, 2007

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 54,404	\$ 84,357	\$ 246,957	\$ 78,244
Tangible Personal Property	1,609	1,823	4,308	2,251
Intangible Personal Property				1
Fire Protection	237			
Omitted Taxes	38	60	174	55
Franchise Taxes	32,919	42,501	111,533	
Additional Billings	14	22	63	20
Oil and Gas Property Taxes	1,113	1,727	5,055	1,601
Limestone, Sand and Mineral Reserves	148	229	670	212
Bank Franchises	22,037			
Penalties	3,951	6,054	17,652	5,682
	<hr/>	<hr/>	<hr/>	<hr/>
Gross Chargeable to Sheriff	116,470	136,773	386,412	88,066
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Credits</u>				
Exonerations	93	144	421	134
Discounts	342	397	958	32
Delinquents:				
Real Estate	7,177	11,079	32,437	10,277
Tangible Personal Property	62	70	167	136
Franchise Taxes Uncollected	661	749	1,770	
	<hr/>	<hr/>	<hr/>	<hr/>
Total Credits	8,335	12,439	35,753	10,579
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Collected	108,135	124,334	350,659	77,487
Less: Commissions *	4,596	5,195	14,026	3,293
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Due	103,539	119,139	336,633	74,194
Taxes Paid	103,462	119,020	336,283	74,082
Refunds (Current and Prior Year)	77	119	350	112
	<hr/>	<hr/>	<hr/>	<hr/>
Due Districts or (Refund(s) Due Sheriff) as of Completion of Fieldwork	<hr/> <hr/> \$ 0	<hr/> <hr/> \$ 0	<hr/> <hr/> \$ 0	<hr/> <hr/> \$ 0

* Commissions:

4.25% on	\$ 274,045
4% on	386,570

The accompanying notes are an integral part of this financial statement.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT

April 27, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT
APRIL 27, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 27, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 4, 2007, \$21,545 of public funds were exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$21,545

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 9, 2007 through April 27, 2007.

Note 4. Interest Income

The Adair County Sheriff earned \$1,468 as interest income on 2006 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Adair County Sheriff collected \$27,874 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Adair County Sheriff collected \$525 of advertising costs and \$3,135 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ann Melton, Adair County Judge/Executive
Honorable Ralph Curry, Adair County Sheriff
Members of the Adair County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Adair County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through April 27, 2007, and have issued our report thereon dated June 19, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Adair County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Adair County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Adair County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks An Adequate Segregation Of Duties

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Adair County Sheriff's Settlement – 2006 Taxes for the period January 1, 2007 through April 27, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Adair County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 19, 2008

COMMENT AND RECOMMENDATION

ADAIR COUNTY
RALPH CURRY, SHERIFF
COMMENT AND RECOMMENDATION

For The Period January 1, 2007 Through April 27, 2007

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks An Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties over receipts and expenditures. The Sheriff's office has two full time employees that handle all the collections, deposits, ledgers, expenditures, reports and reconciliations. Adequate segregation of duties would prevent the same person from having a significant role in the process, recording and reporting of receipts and expenditures. The Sheriff should strengthen internal controls by either segregating the duties or by implementing and documenting compensating controls.

Sheriff's Response: None.

